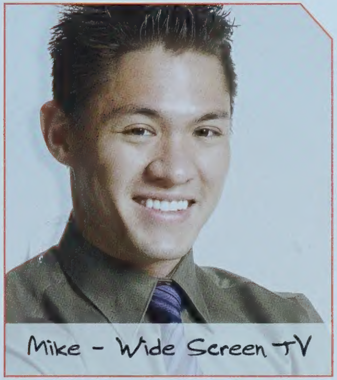
04 annual report


Mike - Wide Screen TV


Lucy - Sofa/Loveseat


Kim - Computer

it starts at home

easyhome® Ltd.

CORPORATE PROFILE

easyhome Ltd. is Canada's largest merchandise rental company, and the fourth largest in North America, offering top-quality, brand name household furnishings, appliances and home electronic products to consumers under weekly or monthly rental agreements. These agreements may be cancelled at any time without further cost to the customer and include an unconditional service guarantee with an option to purchase. *easyhome* currently operates 147 stores in all 10 provinces across Canada.

TABLE OF CONTENTS

CHAIRMAN'S MESSAGE . . . . PAGE 3

MESSAGE TO OUR SHAREHOLDERS . . . . PAGE 5

DRIVING SUSTAINABLE GROWTH. . . . . PAGE 13

MANAGEMENT'S DISCUSSION AND ANALYSIS. . . . . PAGE 18

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING . . . PAGE 39

AUDITORS' REPORT . . . . PAGE 40

CONSOLIDATED FINANCIAL STATEMENTS . . . . PAGE 41

CORPORATE GOVERNANCE. . . . . PAGE 66

easyhome®

Provide	Raise	Demonstrate
the customer with what they can't get from anyone else - financial programs and emotional support.	the customers' self-esteem and sense of control.	a positive, friendly, supportive, and non-judgmental attitude toward the customer.

Vision

Everyone should be given the opportunity to enhance their home and lifestyle. We are the leader in helping people get exactly what they want for as long as they want... right now!

Mission

We are a relationship-driven business that thrives on the opportunity to provide customers access to household goods and services that enhance the quality of their lives.

Values

Integrity, Respect, Quality, Pride and Enterprising

Reinforce	Recognize	Strengthen
the customers' sense of ownership and pride of possession.	the importance of the home to the individual and the family.	the personal relationship between the customer, the store personnel, and the *easyhome* brand.

CHAIRMAN'S MESSAGE

Expansions creating long-term value for shareholders.

In five years, *easyhome* has progressed from a company that was underperforming, through a three-year turnaround of its operations, to a dynamic national brand with a platform that is now in place for significant long-term growth. During this time, *easyhome* has generated outstanding value for its shareholders and has laid the foundation for increasing value in the years to come.

The Board of Directors of *easyhome* is accountable to you, our shareholders, and has worked hard to ensure that the Company's governance policies meet or exceed the TSX Guidelines. However, we believe that corporate governance goes beyond compliance with guidelines. Good governance involves contributing to corporate performance, shaping values and guiding management. Our Board of Directors has demonstrated its commitment to *easyhome*: all of our directors have been on the board for at least five years, since the turnaround began in 2000. They bring a wealth of experience, including finance, accounting and merchandise rental backgrounds to our Company. They have been instrumental in shaping the direction of *easyhome* through this important period in our history.

I would like to sincerely thank the Management and all employees of *easyhome* for the successful execution of the growth strategy in 2004. Their commitment has led the Company through an unprecedented year of growth while maintaining focus on the long-term fundamentals of the business.

We are involved in a very exciting company, at an exciting time. I am confident that the best is yet to come!

Donald K. Johnson,
Chairman of the Board of easyhome Ltd.
March 2005

easyhome® Ltd.

2004 HIGHLIGHTS

Increased revenue 13.3% to $88.5 million

Same store revenue growth of 9.4%

Increased units on rent 24% to 128,457

New customers accounted for 77.2% of revenue growth

Increased customer base 16.3% to 49,974

Opened 14 new stores

Implemented quarterly dividend policy of $0.04 per share

Paid $485,417 in quarterly dividends

Achieved new store profitability in five months compared to 10 months historical

easyhome® Ltd.

MESSAGE TO OUR SHAREHOLDERS

To our Shareholders,

If we had to describe 2004 in only one word, that word would be growth. *easyhome* achieved significant growth in every key area – revenue, income, customers, store count and shareholder value. We not only achieved our goals, we reached them more rapidly than projected.

Strength in Numbers

easyhome delivered record financial results in 2004 through increased same store revenue as well as revenues generated by additional locations.

Revenues grew 13.3% to $88.5 million compared with $78.1 million a year earlier. Same store revenue growth for the year was 9.4%, building on our growth of 5.9% for 2003 and exceeding our original 5% target.

We have now achieved 39 consecutive months of comparable revenue growth and 13 consecutive quarters of same store revenue growth.

Net income for the year increased 117% from $4.0 million to $8.8 million. On a diluted per share basis, earnings were $1.30 compared with $0.75.

Excluding the contribution of the reversal of the future tax asset valuation reserve to net income in the third quarter of the year, net income would have been $6.5 million ($0.96 per share), a 60.8% increase.

Measuring our Success

Goals: 2004	Results
Strategic expansion	14 new stores
5% same store sales growth	9.4% growth
Increase revenues and earnings	revenues up 13.3% earnings up 117%
Increase shareholder value	share price increased 117% began paying quarterly dividends of $0.04 per share

easyhome's financial performance is discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 18.

MESSAGE TO OUR SHAREHOLDERS (continued)

Our story of strength in numbers is about more than revenues and earnings. It is also about *easyhome*'s increased store count and our stronger-than-ever customer base.

We opened 14 new stores during the year, and merged the operations of four stores with four other locations, increasing the net store count from 133 to 143. We have developed a proven and efficient process for rolling out our new stores, with the average store achieving profitability by the fifth month compared with the expected 10 months. We have also proved *easyhome* stores are viable in smaller markets, creating another dimension for growth.

Our customer base is now nearly 50,000 strong, up nearly 7,000 from a year ago. In addition to reaching new customers in new locations, we are drawing more customers into existing stores as a result of the rebranding and redesigning of our stores and our careful selection of merchandise. This has resulted in seven consecutive quarters of net customer growth.

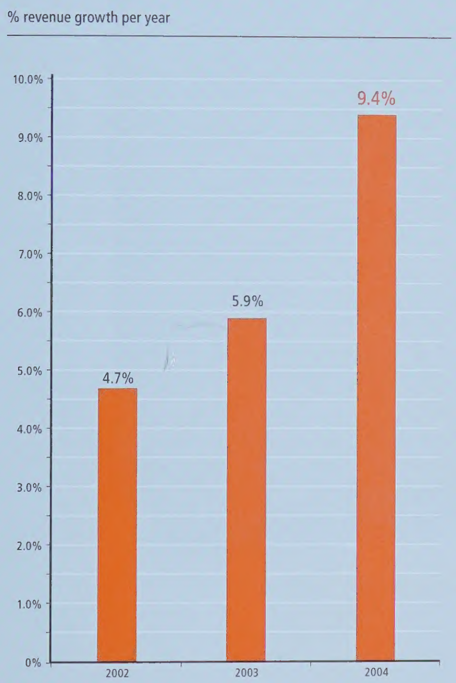
The higher volume of business generated by more stores and more customers enables us to perform at an even higher standard. We can negotiate more advantageous terms with our suppliers, and offer an increasing number of quality products and services to our customers.

Creativity in Marketing

Innovative marketing programs build the *easyhome* brand and drive our growth. In 2004, we launched several new initiatives aimed at growing brand awareness nationally and enhancing the in-store experience for our customers.

To increase brand awareness at a national level, we launched our first-ever English-language television campaign in the second quarter of 2004. This was followed by a second campaign in the fourth quarter. The campaigns ran a combined 34,600 spots across Canada in a targeted Direct Response strategy. The measured response to both the spring and fall campaigns showed positive results in call centre volume, website traffic, and net customer growth. Building on this experience, we will fine-tune our advertising strategy and begin our second year on-air in April 2005.

SAME STORE REVENUE

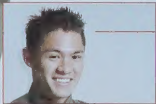


SAME STORE REVENUE GROWTH

9.4%

13 consecutive quarters of same store revenue growth

This is my new wide screen TV.



Mike - Wide Screen TV

Rent a wide screen TV for the big game or the playoffs. *easyhome* rents TVs with the latest HD DLP technology, not to mention full home theatre systems.

Household electronics accounted for 39% of revenue in 2004.

MESSAGE TO OUR SHAREHOLDERS

We also introduced pre-paid wireless and long-distance airtime in the second quarter of 2004 through Rogers, Telus, Bell, Fido and Gold Line Phone Cards. Sold using virtual technology that requires no inventory on-hand, this is a convenient service to our customers who come into the store each week to make their payment.

At the end of the third quarter of 2004, we successfully introduced prepaid cellular handsets with the Roger's Pay-Go program in a rent-to-own package. With payments as low as $7 per week, we took a program that is designed for the cash-constrained customer and made it more accessible. We had over 2,000 handsets on rent by the end of the year. This new program also provides a cross-selling opportunity with the pre-paid wireless airtime program.

Our strong marketing focus has received industry recognition. *easyhome*'s marketing team has won several awards from the Association of Progressive Rental Organizations, the national trade association in the United States devoted to the merchandise rental industry.

Opportunities in Action

We have great optimism for the immediate and long-term future of our Company. Our growth has been faster and more than we anticipated. For 2005, our mandate is to continue *easyhome*'s expansion while maintaining financial discipline: Growth tempered by prudence.

More than ever before, *easyhome* is positioned for success. Financially, we are on solid ground and we expect to be debt-free in 2005. Our marketing initiatives are effectively drawing in new customers while retaining current ones, and we dominate the under-penetrated merchandise rental market.

In 2005, we will continue to explore creative opportunities, to add value to our customer relationships while growing revenues. We will also maintain our commitment to providing the most sought-after technologies, including LCD, plasma and DLP. In this regard, in the summer of 2005, we plan to introduce Apple iPod MP3 players into our stores.

easyhome Ltd.

MESSAGE TO OUR SHAREHOLDERS

Also in 2005, we will continue to invest in our store infrastructure, developing a new purchase order system that will enable us to more effectively manage in-store product availability. Improved accuracy, automation and speed will allow us to serve our customers better, while increasing our rental asset utilization rates.

This past year we completed the three-year strategic plan that restored your Company to profitability and set the path for future growth. We are now pursuing our next three-year plan, which will see *easyhome* through 2007. Our strategy is to be the leader in the Canadian merchandise rental industry. We will be the best and the biggest at what we do. We will leverage our size, expertise, and national presence to expand the market and capture the lion's share of the merchandise rental industry in Canada.

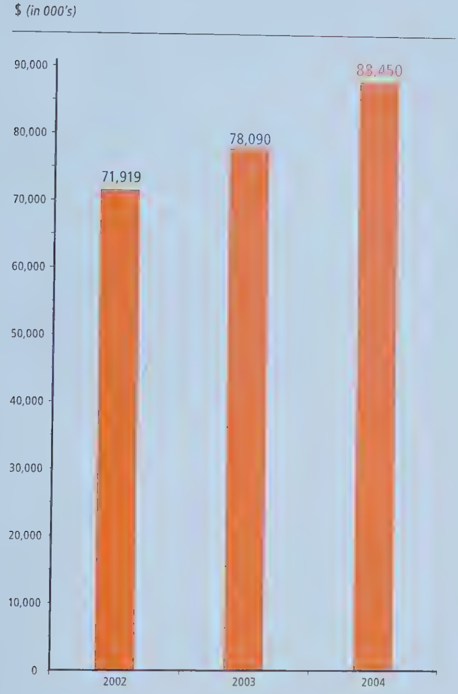
We strongly believe there is room for significant growth in the Canadian merchandise rental marketplace.

To capitalize on this potential, we expect to open 20-30 new stores each year, for the next few years.

As we look back at 2004, we are delighted with our results, inspired by our opportunities, and motivated by our potential. I would like to extend thanks to the many people who have been instrumental in *easyhome*'s success - the Board of Directors for their wisdom and leadership, our employees for their dedication to superior customer care, and our shareholders for their continued and enthusiastic support. We look forward to another successful year.

David Ingram,
President & Chief Executive Officer
March 2005

REVENUE



INCREASED
REVENUE 13.3% TO

$88.5 MILLION

39 consecutive months of
comparable revenue growth

This is my new sofa.

Lucy – Sofa/Loveseat

Make a temporary living space your own with furniture from *easyhome*.

Home furnishings accounted for 32% of revenue in 2004.

Driving Sustainable Growth

easyhome is focused on controlled, sustainable growth to increase revenues and profits, build its brand, and enhance shareholder value. The Company will attain this growth internally through improved same store revenues, and externally through the addition of new stores.

Growing Same Store Revenue

Same store growth is driven by increasing the number of rental agreements from established stores and by increasing the rental amount per agreement.

easyhome is growing the number of rental agreements by attracting new customers through innovative marketing, including television advertising, direct marketing, and in-store promotions. In 2004, the Company grew its customer base by 16.3%. Same store customer growth accounted for 6.8% of this increase, while customers from new stores contributed 9.5%.

Marketing campaigns focus on the different ways *easyhome* can meet customer needs, from traditional rent-to-own agreements, to supplying temporary solutions. By providing a big screen television for a weekend, a high-end computer for a month, or a digital camera for a vacation, *easyhome* is reaching new categories of customers – customers who previously may not have considered shopping outside mainstream retail stores.

The Company is also increasing the number of agreements per customer by offering a wider variety of merchandise to meet more of its customers' needs. In addition to long-established product categories such as furniture and appliances, *easyhome* features leading-edge computers and electronics. *easyhome* increased the number of units on rent 24% during the year.

As well as growing the number of rental agreements, *easyhome* is increasing the dollar amount of many of its agreements by offering higher priced products.

DRIVING SUSTAINABLE GROWTH

While *easyhome* remains committed to offering merchandise at various price points to meet a wide range of needs, the Company is also expanding its high-end offerings in response to customer demand. As a result, average monthly payments collected per customer increased 3%, strengthening rental revenue by $1.7 million in 2004.

Key growth categories:

- Furniture was our highest growth category, second only to electronics in revenue contribution with 32%. Unit growth for 2004 was 33%.
- The electronics category had 13% unit growth, with home theatre systems capturing top performance of 43% growth. Electronics contributed 39% of overall revenue.
- Appliances experienced 26% growth, primarily due to the laundry category.
- Computer rentals continue to grow, with new technology and user-friendly displays contributing to their 33% increase in 2004.

Expanding our Market Presence

New store openings are accelerating *easyhome*'s growth in the underpenetrated merchandise rental market. In 2004, the Company opened 14 new locations, with all stores expected to achieve profitability in half the expected time. This quick rise to profitability is evidence of both market need and the effectiveness of *easyhome*'s model.

During 2005, *easyhome* expects to launch 21 new stores. This is our first year of our 3-year plan to open new locations at a minimum rate of 15% of our store base. Capacity exists in every market across the country so our approach is by order of opportunity.

One of the Company's key findings during its first expansion phase in 2004 was that its stores are viable in much smaller markets than anticipated. Where research suggested a population of approximately 40,000 was necessary for economic feasibility, *easyhome* discovered that a community of 20,000 is well able to support a store. As a result, the Company has expanded its estimate of the total number of stores to reach market saturation to over 300, more than twice our current store count.

SHARE PRICE

117%

SHARE PRICE INCREASED

(December 31, 2003 - December 31, 2004)

began paying quarterly dividend of $0.04 per share

This is my new computer.

Kim – Computer

Get the latest technology each year when you rent your computer equipment from *easyhome* while away at school.

More than 12% of easyhome revenue was from computers and related products in 2004.

easyhome Ltd.

In addition to opening new stores, *easyhome* can expand its retail network through acquisitions. The Company may acquire stores to gain access to particularly desirable locations. Alternatively, *easyhome* could simply acquire a portfolio of rental agreements, allowing for growth in the Company's customer base without the purchase of physical capital assets.

Leading the Way

To be successful, a company requires support from every member of its team. To grow at *easyhome*'s pace, the recruitment and retention of staff is particularly critical.

easyhome has initiated a number of programs to provide incentives to its associates, improve their satisfaction, and enable them to provide superior customer service. As a result, employee turnover is 52% lower than it was three years ago and 17% lower than the industry average.

The Company has also improved its hiring process to attract associates who best fit its vision. *easyhome* now has strong, customer-focused staff, and a pipeline of associates with management potential who can help the Company achieve sustainable growth.

Growing Same Store Revenue

"easyhome is growing the number of rental agreements by attracting new customers through innovative marketing."

Expanding our Market Presence

"During 2005, easyhome expects to launch 21 new stores."

Leading the Way

"recruitment and retention of staff is particularly critical... ...employee turnover is 52% lower than three years ago and 17% lower than the industry average."

The following discussion and analysis should be read in conjunction with, and is qualified by, the December 31, 2004 audited consolidated financial statements of the Company and the notes relating thereto and the Report to Shareholders contained in the Company's Annual Report.

This management discussion and analysis refers to certain financial measures that are not determined in accordance with generally accepted accounting principles ("GAAP") in Canada. These measures do not have standardized meanings and may not be comparable to similar measures presented by other companies. Although measures such as same-store revenue growth and operating income do not have standardized meanings prescribed by GAAP, these measures are defined herein or can be determined by reference to our financial statements. We discuss these measures because we believe that they facilitate the understanding of the results of our operations and financial position.

Date

March 7, 2005

Overall Performance

easyhome Ltd. ("*easyhome*" or the "Company") is in the business of renting, with or without an option to purchase, brand name home entertainment products, appliances and household furniture across Canada. The merchandise rental business is not seasonal for revenue and income generation and is generally immune to changes in economic conditions. All of the Company's revenue is generated by its core business and related activities.

The Company had record revenues in 2004 totaling $88.5 million, an increase of $10.4 million over last year, or 13.3%. The monthly rental revenue portfolio, that is, the rental revenue available for collection each month, increased from $6.3 million as at December 31, 2003 to $7.2 million at the end of 2004, or 14.1%. An increase in the customer base of 6,934 from December 31, 2003 to December 31, 2004 (16.3%) accounted for 77.2% of the revenue increase while an increase in the average number of rental agreements held by each customer, and hence a corresponding increase in the average amount collected per customer, accounted for the balance of the increase. For the fourth quarter, revenue increased $3.5 million, from $20.4 million in 2003 to $23.9 million in 2004, or 17.1%. An increased customer base accounted for 89% of this increase.

Expenses for the year, as a percentage of revenue, decreased from 58.2% in 2003 to 57.3% in 2004 and for the fourth quarter from 57.4% in 2003 to 57.3% in 2004. Rental amortization for the year as a percentage of revenue reduced from 29.9% in 2003 to 29.2% in 2004 with one-half of the reduction coming from a decrease in the book value of rental assets written-off as a percentage of revenue. For the fourth quarter of 2004 and 2003, rental asset amortization remained consistent at 29.3%.

Income before income taxes for the year increased $4.4 million, from $5.7 million in 2003 to $10.1 million in 2004, or 77.7%. As a percentage of revenue, pre-tax earnings reached 11.4% in 2004 compared with 7.3% in 2003. For the fourth quarter of 2004, earnings before tax increased from $2.0 million in 2003 to $2.7 million in 2004, or 37.7%.

In the third quarter of 2004, a future tax asset valuation reserve in the amount of $2.3 million was reversed through income tax expense as management is of the view that the magnitude, timing and sustainability of future taxable incomes is sufficient to support the full value of the future tax assets. This reversal reduced the effective income tax rate to 13.5% from an expected average reversal rate for future income taxes of approximately 36%. The comparable ratio in 2003 was 29.3% which was the expected average reversal rate for future income taxes at December 31, 2003.

Net income for the year 2004 increased $4.8 million from $4.0 million in 2003 to $8.8 million in 2004, or 117.3%. Removing the contribution of the reversal of the future tax asset valuation reserve to net income in the third quarter, net income would have been $6.5 million in 2004 compared with $4.0 million in 2003, an increase of $2.5 million, or 60.8%.

In the fourth quarter of 2004, revenue increased $3.5 million over 2003, from $20.4 million to $23.9 million. Operating income increased $0.4 million, from $2.3 million to $2.7 million. Operating income did not increase proportionately to the increase in revenue because of increased advertising costs of $0.5 million due to the National TV advertising campaign, increased salaries and benefits expense and other store operating costs due to the store count being a net 10 stores greater than 2003 and increased bonus accruals because of the record profitability for the year.

Net income for the fourth quarter of 2004 increased $0.1 million from $1.6 million in 2003 to $1.7 million in 2004, or 8.0%. In the fourth quarter of 2003, tax expense was charged at an effective rate of 18.4% because a reduction to the tax provision of $0.3 million was required to bring the annual effective tax rate down to 29.3% from 35.0%, which was the income tax rate calculated for the first three quarters of 2003. The 29.3% rate as

at December 31, 2003 was the expected average reversal rate for future income taxes at that time. Removing this reduction from income tax expense in the fourth quarter of 2003 would have reduced net income to $1.3 million compared with net income for the fourth quarter of 2004 of $1.7 million, an increase of $0.4 million, or 35.5% over the same period of 2003.

Diluted earnings per share for the year ended December 31, 2004 were $1.30 ($0.96 before the third quarter tax expense recovery) compared with $0.75 in 2003. For the 2004 fourth quarter, diluted earnings per share were $0.25 compared with $0.30 in 2003 ($0.26 after adjusting for the income tax provision reduction discussed above).

During 2004, the Company merged the operations of four stores with four other store locations in the Company's chain and opened 14 new stores, increasing the store count from 133 as at December 31, 2003 to 143 as at December 31, 2004. We expect to continue our new store opening program at a rate of approximately 20-30 stores each year for the next few years.

Revenue has been trending upwards on a comparable quarterly basis since the third quarter of 2001. Sequentially, revenue has increased sequentially for nine quarters in a row. In addition, same store revenue growth (revenue from stores open for the comparable periods) has continued to show positive trending. Same store revenue has increased from 4.7% in 2002 to 9.4% in 2004. We expect same store revenue increases to continue at an annual pace of 7-9%.

The Company's balance sheet remains strong with a funded debt to equity ratio of less than 5%. The Company's credit facility was renewed on December 20, 2004 at an interest rate of prime plus 1% with no added charges for financing fees compared with financing fees of $90,000 in 2003. The Company's cap on its renewed credit facility moved to $10.0 million from $20.0 million at the Company's request since the Company believes this credit line, when combined with the Company's internally generated cash flow, will be adequate to fund the Company's growth plans.

Cash flow from operating activities decreased $2.5 million to $3.5 million in 2004 from $6.0 million in 2003. The decrease was primarily driven by an increase in rental asset purchases, from $27.9 million in 2003 to $34.8 million in 2004, to support the Company's growth.

The Company spent $1.7 million on capital expenditures in 2004 compared with $3.2 million in 2003 when re-branding costs of $2.8 million were incurred to consolidate the stores under one single brand-"*easyhome*".

Outlook

The Company expects the positive trending in revenue, net income and same store revenue growth to continue. In 2001, the Company outlined, as one of its prime financial objectives, same store revenue growth of 5% for the 2002, 2003 and 2004 fiscal years. The Company accomplished this for 2002 and 2003 and achieved 9.4% same store revenue growth for 2004. Growth in revenue will also come from the Company's new store opening program and from opportunistic value-added store acquisitions. The Company's strategy is to open stores selectively and to acquire new stores and customer accounts in existing and new geographic markets where stores can be "clustered" in order to realize the benefits of economies of scale in marketing and distribution and other operating efficiencies. Twenty-one new stores are scheduled to be opened in 2005. Management believes that suitable store space is available for lease for new store openings and therefore space is not a limiting factor in its expansion goals. Also, with the national brand in place, the Company intends to continue its television campaign to expand its brand awareness efforts. This will support all other marketing initiatives and introduce the service that easyhome offers to customers.

The Company's positive trending in revenue and net income may be adversely affected by the operations of Insta-Rent, a Canadian rent-to-own chain with 53 stores in Canada as at December 31, 2004, and by the entry of Aaron Rents and Rent-A-Center, two large U.S. merchandise rental operators, into the Canadian marketplace. The majority of Insta-Rent's locations are contained within Brick Warehouse and United Furniture Warehouse stores and most of their business is derived from customers who are denied credit at the Brick and United furniture stores. Aaron Rents opened their first franchised store in Kitchener, Ontario in the fall of 2003 and now operates a total of two franchised stores. Rent-A-Center acquired five stores in Calgary and Edmonton on March 5, 2004. Both have stated their intentions to expand in the Canadian marketplace.

Other factors that may adversely affect the Company's growth are competition from other merchandise rental businesses and, to a lesser extent, rental stores that do not offer a purchase option. The Company also competes with discount stores and other retail outlets that offer an installment sales program or offer comparable products and prices. Furthermore, additional competitors, both domestic and international, may emerge since barriers to entry are relatively low. It is unclear what impact this increased competition will have on the Company's operational results.

The biggest limiting factor in the Company's expansion plans will be the hiring and retention of the best people for the job. Over the last few years, the Company has improved its hiring competencies and its training programs such that employee turnover has dropped 52% over the last three years.

SELECTED ANNUAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

(in 000's, except earnings per share amounts)	**2004** **$**	2003 $	2002 $
		(restated)	(restated)
Revenue	**88,450**	78,090	71,919
Net income	**8,752**	4,027	2,509
Dividends declared on common shares	**730**	–	–
Dividends declared on preferred shares	**–**	308	–
Earnings per share			
Basic	**1.44**	0.83	0.57
Diluted	**1.30**	0.75	0.52

CONSOLIDATED BALANCE SHEETS

(in 000's)			
Total assets	**69,286**	61,665	58,215
Total funded debt	**2,237**	3,844	17,229

Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for cash consideration received from a vendor. Under the new recommendations, the Company accrues vendor volume rebates when earned as a reduction to rental assets. Earned amounts are amortized on a straight-line basis over 20 months, representing the average life of the underlying rental assets, and recorded as a reduction of rental asset amortization expense. Prior to the adoption of the new recommendation, vendor volume rebates were accrued as earned and recorded as other revenue.

This change has been applied retroactively and the Company's 2003 consolidated financial statements have been restated accordingly. The effect of adopting the new recommendations decreased 2003 revenue by $628,000, net income by $91,000, basic earnings per share by $0.02, diluted earnings per share by $0.01 and total assets by $342,000.

The primary reason for the increase in the Company's revenue and profitability since 2001 has been the Company's return to the basics of the business, that is, renting merchandise and collecting rental payments due. During 1999 and 2000, the Company lost focus on the basic business model and compromised profits by not having the capital available in order to replenish rental assets, and by building the rental agreement portfolio without regard to the customers' ability to fulfill their obligations under the agreement. As a result, store personnel were forced to spend an inordinate amount of time dealing with delinquent accounts, and merchandise rentals declined and charge-offs increased. With the implementation of more stringent collection criteria and numerous other operating efficiencies, growth in revenue and net income resulted as the Company's customer base and the average customer transaction value increased and charge-offs decreased. The increase in revenues was primarily at the same store level. Revenue for newly opened stores in 2004 was $2.4 million out of total revenue of $88.5 million (2.7%).

The increase in total assets is primarily a result of the increase in rental asset purchases which were required to support the Company's growth in its rental portfolio.

Results of Operations

Year ended December 31, 2004 compared to the year ended December 31, 2003

Revenue

Revenue was $88.5 million for the year ended December 31, 2004 compared to $78.1 million in 2003, an increase of $10.4 million or 13.3%. The primary factor for the increase in revenue was the 20% increase in the rental agreement portfolio from 75,262 agreements outstanding as at December 31, 2003 to 90,226 agreements outstanding as at December 31, 2004. The increase in the rental agreement portfolio was achieved primarily through growth in the Company's customer base of approximately 7,000 customers rather than an increase in the number of agreements held by each customer.

During the year, the Company merged the operations of four stores with four other stores in the Company's chain and opened fourteen new stores for a net increase of ten stores during the year. New store revenue accounted for $2.4 million of the $88.5 million total, or 2.7%, and 12.7% of the increase in rental agreements.

Rental Revenue

Rental revenue was $74.5 million for the year ended December 31, 2004 compared to $66.1 million in 2003, an increase of $8.4 million or 12.6%. The primary reason for the increase was the growth in the number of rental agreements outstanding year over year.

Other Revenue

Other revenue, which is realized from supplier advertising rebates earned, fees for ancillary services such as the merchandise protection plan, and processing, reinstatement and other fees related to returned "NSF" cheques, was $14.0 million for the year ended December 31, 2004 compared to $12.0 million in 2003, an increase of $2.0 million or 16.8%. As a percentage of revenue, other revenue increased to 15.8% in 2004 from 15.3% in 2003. The increase was attributable to increased participation in the merchandise protection plan and an increase in supplier advertising rebates earned.

Expenses

Expenses were $50.7 million for the year ended December 31, 2004 compared to $45.5 million in 2003, an increase of $5.2 million or 11.5%. This increase was in the normal course of business as fourteen new stores were opened and a significant portion of the costs vary with revenue. As a percentage of revenue, expenses decreased to 57.3% in 2004 from 58.2% in 2003.

Salaries and Benefits

Salaries and benefits were $25.9 million for the year ended December 31, 2004 compared to $22.9 million in 2003, an increase of $3.0 million or 13.0%. The increase in salaries and benefits is primarily attributable to (1) merit increases effective April 1, 2004 (2) a net increase in the store count of ten, and (3) increased field and corporate office bonuses. As a percentage of revenue, salaries and benefits remained consistent at 29.3% for both years.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) were $9.7 million for the year ended December 31, 2004 compared to $8.7 million in 2003, an increase of $1.0 million or 10.9%. As a percentage of revenue, selling, general and administrative expenses declined to 10.9% in 2004 from 11.2% in 2003. Certain costs included in SG&A are not variable with revenue and hence, as revenue increases SG&A should decline as a percentage of revenue.

Advertising costs increased from $3.8 million in 2003 to $4.4 million in 2004, an increase of $0.6 million, primarily as a result of a national English language television advertising campaign which started in April 2004 and ran for the April to June and the October to December months. As a percentage of revenue, advertising costs remained consistent at 5% of revenue. The Company believes the TV campaign increased the overall exposure of the business to the general public and was a significant factor in the growth of the Company's customer base in 2004.

Insurance costs increased $0.3 million, from $0.6 million in 2003 to $0.9 million in 2004, as a result of a premium increase of 35% for the policy period August 1, 2003 to July 31, 2004, the addition of 21 delivery vehicles to support our revenue growth and store expansion, and the addition of property insurance on the 14 new stores opened in 2004.

Occupancy Costs

Occupancy costs were $11.6 million for the year ended December 31, 2004 compared to $10.9 million in 2003, an increase of $0.7 million, or 6.1% primarily as a result of opening 14 new stores and increases in lease rates for some of the leases that were renewed in 2004. As a percentage of revenue, occupancy costs decreased to 13.1 % in 2004 from 13.9% last year. The percentage decrease was primarily due to rent declining as a percentage of revenue as it is a fixed cost and revenues have been increasing.

Automotive and Travel

Automotive and travel expenses were $3.6 million for the year ended December 31, 2004 compared to $3.0 million in 2003, an increase of $0.6 million or 21.1%. As a percentage of revenue, automotive and travel increased to 4.0% in 2004 compared to 3.8% last year. The percentage increase was primarily the result of the increase in vehicle lease and operating costs resulting from the increase in the average number of delivery vehicles in 2004 compared to 2003 and the rise in fuel prices.

Amortization

Amortization of rental assets was $25.8 million for the year ended December 31, 2004 compared to $23.3 million in 2003, an increase of $2.5 million or 10.5%. As a percentage of revenue, amortization of rental assets decreased to 29.2% in 2004 from 29.9% in 2003. The percentage decrease resulted from an overall average increase in assets on rent (2004: 78.6%; 2003: 76.7%) and an improvement in collection activities which resulted in less product being written-off (2004: 2.3% of revenue; 2003: 2.6% of revenue).

Amortization of capital assets, intangible assets and deferred costs was $1.6 million for the year ended December 31, 2004 compared to $1.9 million in 2003, a decrease of $0.3 million or 15.5%. As a percentage of revenue, amortization of capital assets, intangible assets and deferred costs decreased to 1.8% in 2004 from 2.4% in 2003. In 2003, amortization of capital assets, intangible assets and deferred costs included $605,000 of asset write-offs associated with the re-branding of the stores to the easyhome brand. Adjusting for these costs, amortization of capital assets, intangible assets and deferred costs would have been 1.6% of revenue for 2003 compared with 1.8% in 2004. The higher amortization cost in 2004 is attributable to the amortization costs associated with the re-branding capital costs incurred in the second quarter of 2003 and the new stores added in 2004.

Operating Income (Income before interest and income taxes)

Operating income was $10.4 million for the year ended December 31, 2004 compared to $7.4 million in 2003, an increase of $3.0 million or 40.3%. As a percentage of revenue, operating income increased to 11.7% in 2004 from 9.5% in 2003. Lower operating expenses and amortization expense, on a percentage of revenue basis, were the primary reasons for the improved operating margins.

Interest Expense

Interest expense was $0.3 million for the year ended December 31, 2004 compared to $1.7 million in 2003, a decrease of $1.4 million. The decrease was due primarily to lower bank financing fees being expensed in 2004 ($90,000) compared with 2003 ($600,000) and the lower average loan balance during the period.

Income Tax Expense

Income tax expense was $1.4 million, an effective rate of 13.5%, for the year ended December 31, 2004 compared to $1.7 million, an effective rate of 29.3%, in 2003, a decrease of $0.3 million or 18.0%. For the first two quarters in 2004, the income tax provision was calculated at the expected average reversal rate for future income taxes of 36%. At the end of the third quarter, a future tax asset valuation reserve in the amount of $2.3 million was reversed through income tax expense as management is of the view that the magnitude, timing and sustainability of future taxable incomes is sufficient to support the value of the future tax assets. This reversal reduced the 2004 effective income tax rate from 36% to 13.5%.

Financing

The Company can fund its ongoing operations and new store opening program with internally generated cash flow. If opportunistic value-added store acquisitions or customer account acquisitions present themselves to the Company, the Company will draw upon its bank revolving line to fund these acquisitions. The balance of the bank revolving line was $2.2 million as at December 31, 2004 and is capped at an upper limit of $10 million.

Critical Accounting Measures

Management's discussion and analysis of financial condition and results of operations is made with reference to the 2004 annual consolidated financial statements. The preparation of these financial statements requires estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The Company believes the following are the most critical accounting estimates that affect its operating results and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

Rental Revenue

Merchandise is rented to customers pursuant to agreements that provide for weekly or monthly rental payments collected in advance. Revenue from rental agreements is recognized when payment is received and the rental period has passed.

Rental Assets

Rental assets are recorded at cost, including freight. Vendor volume rebates are recorded as a reduction of the cost of rental assets.

Assets on rent, excluding game stations, computers and related equipment and assets that were previously held for rent assets that had not been out on rent for at least 90 consecutive days, are amortized in the proportion of rents received to total expected rents provided over the rental agreement term. Game stations are amortized on a straight-line basis over 18 months. Computers and related equipment are amortized on a straight-line basis over 24 months.

Held for rent assets are not amortized where such assets have not been out on rent for at least 90 consecutive days. Once held for rent assets have not been out on rent for at least 90 consecutive days, such assets are amortized on a straight-line basis over 18 months regardless of future rental.

In the event management determines that the future net cash flows to be derived from renting the assets is less than the carrying value of the assets, the assets are written down to estimated net realizable value. The determination of future net cash flows involves considerable judgment and measurement uncertainty and the impact on the consolidated financial statements for future periods could be material. The amortization period for game stations and computers and related equipment is based on their estimated useful service lives. Because these estimates of useful lives involve considerable judgment, a shortening of the estimated life of these assets could result in higher amortization expense in future periods.

Capital assets

Capital assets are recorded at cost, including freight and are amortized over their estimated useful lives. Capital assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is then recognized when the carrying amount exceeds their fair value. The determination of fair value involves considerable management judgment and assumptions and any significant changes in assumptions could result in the impairment of capital assets.

Factors that could trigger an impairment review include significant negative industry trends, significant under-performance relative to historical or projected future operating results and significant changes in the use of the assets.

Goodwill

The carrying value of goodwill is reviewed annually to ensure that the value reflected is not impaired. An impairment loss would be recognized if the carrying amount of the goodwill exceeds its estimated fair value. Fair value may be determined using alternative methods for market valuation including discounted cash flows and net realizable values. In estimating fair value, the Company chose a valuation method and made assumptions and estimates in a number of areas, including future cash flows and discount rates. Due to the long-term nature of assumptions made it is possible that estimates could prove to be materially incorrect, and accordingly the impact on the consolidated financial statements for future periods could be material.

Accounting Policy Changes

Vendor Volume Rebates

Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for cash consideration received from a vendor. Under the new recommendations, the Company accrues vendor volume rebates when earned as a reduction to rental assets. Earned amounts are amortized on a straight-line basis over 20 months, representing the average life of the underlying rental assets, and recorded as a reduction of rental asset amortization expense. Prior to the adoption of the new recommendation, vendor volume rebates were accrued as earned and recorded as other revenue.

This change has been applied retroactively and the Company's 2003 consolidated financial statements have been restated accordingly. The effect of adopting the new recommendations decreased net income by $122,000 and $91,000 for the years ended December 31, 2004 and 2003 respectively.

Generally Accepted Accounting Principles

Effective January 1, 2004, the Company prospectively adopted the new CICA Handbook Section 1100, Generally Accepted Accounting Principles. This standard establishes what constitutes Canadian generally accepted accounting standards and provides guidance on the GAAP hierarchy. The adoption of this standard did not have a material effect on the Company's financial position, results of operations or cash flows.

Liquidity and Capital Resources

General

As at December 31, 2004, the balance outstanding on the bank credit facility was $2.2 million. In December 2003, the Company issued 1,633,000 common shares for net proceeds of $12.5 million. $2.5 million of these proceeds were used to redeem the 12% preferred shares and the balance was applied to the bank credit facility.

As at December 31, 2004, the Company's debt to equity ratio was less than 5%. The Company does not expect to raise equity capital in the near future and will fund working capital requirements and capital requirements from internally generated cash flow and its bank credit facility.

The bank credit facility was renewed in December 2004. The facility is a one-year term facility which expires on December 31, 2005, bears interest at prime plus 1% and has a $10 million cap subject to a borrowing base limit calculated as a percentage of the net book value of rental assets. Other banking covenants include a fixed charge cover ratio, a funded debt-to-cash flow ratio, a minimum tangible net worth, a limit on capital expenditures and a minimum rental asset purchase ratio. The Company was in compliance with all of its banking covenants during 2004 and 2003 and at each of the year-ends.

The Company incurred $1.7 million of capital expenditures during 2004. Of this amount, $0.8 million was spent on new store openings, $0.2 million on store relocations, $0.5 million on upgrading the stores' computer hardware and installing an intranet system and the balance of $0.2 million on miscellaneous costs. In May 2003, the Company completed the re-branding of its stores to the *easyhome* brand. This conversion required approximately $2.8 million in capital and was funded through internally generated cash flow. On-going maintenance capital requirements, that is, capital required other than for the purchase of stores or customer accounts or for new store openings, are not expected to exceed $0.5 million per year. New store opening and relocation costs are expected to average approximately $1.5 million per year for the next three years. The Company will also explore acquisition opportunities as they arise. These acquisitions will be funded from the Company's bank credit facility.

The Company has not entered into any off-balance sheet arrangements.

Year ended December 31, 2004 compared to the year ended December 31, 2003

Cash flow from operating activities for the year ended December 31, 2004 was $3.5 million compared to $6.0 million in 2003, a decrease of $2.5 million. This decrease was largely the net result of net income for the year increasing $4.7 million while rental asset purchases increased $6.9 million. The increase in rental asset purchases was required to support the Company's growth in its rental portfolio.

Management does not believe that the sourcing of rental asset merchandise is an inhibiting factor in its growth plans. The Company purchases all product directly from the manufacturers or distributors and all product is delivered directly to the stores eliminating the necessity for the Company to maintain warehousing facilities. The Company does not generally enter into contracts with its suppliers and believes there are numerous sources of product so reliance is not placed on any one supplier.

Cash used in investing activities was $1.9 million for the year ended December 31, 2004 compared to $2.4 million in 2003, a decrease of $0.5 million. Capital asset purchases decreased $1.5 million primarily due to the re-branding costs incurred in 2003. Proceeds from the sale of land was nil compared to $0.8 million last year. Other miscellaneous items accounted for the balance of the change of $0.1 million.

Cash used in financing activities was $1.7 million for the year ended December 31, 2004 compared to $3.6 million in 2003, a decrease of $1.9 million. In 2004, $0.3 million was raised from the issuance of common shares compared to $0.1 million in 2003, an increase of $0.2 million; common share dividends of $0.5 million were paid compared to nil in 2003, an increase of $0.5 million; and the balance of $1.4 million was applied against the Company's revolving credit facility, a decrease of $11.8 million from last year. In December 2003, net proceeds of $12.5 million were raised from the issuance of 1,633,000 common shares, of which $2.5 million was used to redeem the 12% redeemable preferred shares (compared to nil in 2004), a decrease of $10.0 million. In 2003, $0.1 million was paid in financing fees and $0.3 million in preferred share dividends compared with nil in 2004, a decrease of $0.4 million.

Contingent Liabilities

On April 26, 2004, a legal proceeding was commenced against the Company and its wholly-owned subsidiary, RTO Asset Management Inc. by Lawrence William Nantais (the "Plaintiff"), a customer of the Company. The Plaintiff seeks an order pursuant to the *Class Proceedings Act*, 1992, S.O. 1992 c.6 (the "Act"), as amended, certifying the action as a class proceeding and appointing him as the representative of the class. The Plaintiff asserts that, to the extent a member of the class acquires ownership of merchandise offered by easyhome, the Company's rental agreement is an agreement or arrangement for credit advanced and the aggregate of all charges and expenses under the rental agreement amounts to interest charged at rates in excess of those allowed by law and that the rental agreements are void and unenforceable. The Statement of Claim states that the members of the class will seek to recover such charges and expenses, as well as, damages, costs and interest.

As at December 31, 2004, it was not possible to reasonably estimate the loss, if any, that would arise from this claim.

On March 4, 2005 the Company settled the class action lawsuit in principle. The settlement is conditional upon the lawsuit being certified by the Court as a class proceeding under the *Class Proceedings Act* and as part of that process, the terms of settlement being approved by the Court. The settlement does not constitute any admission of liability by the Company.

Under the terms of the settlement in principle, the Company is to pay to the Class $7.384 million in coupons which may be used to purchase the Company's merchandise, be applied to existing rental agreements or used after starting a new rental agreement. In addition, the Company is to pay the legal fees and costs of the Class, in an amount to be approved by the Court, but anticipated to be less than $1.0 million. At this time, the Company has not estimated the cost of the settlement as that is contingent upon how many coupons are redeemed and in what form-that is, whether they are used to acquire merchandise, applied against rent on existing rental agreements or applied against rent on newly activated rental agreements. However, the Company does expect the final cost of the settlement to be less than the full settlement amount, as rates of take-up and redemption of the coupons will likely be less than 100%.

A motion seeking the authorization to institute a class action was started against the Company in the Province of Quebec (Montreal Superior Court) in November 1997. The plaintiffs were authorized by the Court in July 1999 to proceed with a class action against the Company on behalf of all persons who contracted with the Company in the Province of Quebec for the lease or purchase of one or more items destined for personal use in their home (the "class"). The plaintiffs allege that the Company's rental contracts do not properly comply with the requirements of the *Consumer Protection Act* (Quebec). They are seeking the cancellation of their contracts, or the reduction of their obligations and the reimbursement of all or a portion of the amounts paid by the members of the class to the Company, as well as exemplary damages in the amount of $200 per contract. The Company has entered into a settlement agreement with the plaintiffs, which is expected to be authorized by the court in April 2005. Management recorded a reserve on its books in a prior year in an amount it considers to be adequate to cover any potential liability of the Company in relation to this matter.

Summary of Quarterly Results

The Company's rental business, because it is a portfolio business, is not seasonal as are most other types of retail businesses which generate a significant portion of their sales and profits during the Christmas season. Quarterly revenue generally does not vary more than 10%, assuming no portfolio growth, and no significant new store openings or acquisitions.

CONSOLIDATED STATEMENTS OF INCOME

(in 000s, except earnings per share amounts)

$	Three Months Ended (2003 restated)							
	Dec 31, 2004	Sept 30, 2004	June 30, 2004	March 31, 2004	Dec 31, 2003	Sept 30 2003	June 30, 2003	March 31 2003
Revenue	23,914	22,036	21,618	20,882	20,432	19,335	19,114	19,209
Net income for the period	1,728	4,116*	1,369	1,539	1,601**	1,198	434	794
Earnings per share								
Basic	0.28	0.68	0.23	0.25	0.33	0.25	0.09	0.16
Diluted	0.25	0.61	0.21	0.23	0.30	0.23	0.07	0.15
Net income margin* **	7.2%	18.7%	6.3%	7.4%	7.8%	6.2%	2.3%	4.1%

* includes an income tax expense recovery of $2,276

** includes an income tax expense recovery of $215

*** net income as a percentage of revenue

Fourth Quarter

Overall Performance

For the three months ended December 31, 2004, total revenue increased $3.5 million from $20.4 million to $23.9 million, or 17.0%. The monthly rental revenue portfolio increased from $6.3 million at the end of 2003 to $7.2 million at the end of 2004. For the three months ended December 31, 2004, an increased customer base accounted for 89% (2003-40%) of the rental revenue increase and an increase in the average payment collected per customer, from $388 in 2003 to $395 in 2004, accounted for the balance of the revenue increase. The Company merged the operations of one store with one other store location in the Company's chain (2003-none) and opened three stores during the quarter (2003-3) for a store count of 143 as at December 31, 2004.

Net income increased by $0.1 million, from $1.6 million for the three months ended December 31, 2003 to $1.7 million in 2004. In the fourth quarter of 2003, income tax expense was calculated at an effective rate of 18.4% to adjust for the effect of calculating income tax expense for the first three quarters of 2003 at 35% rather than 29.3%, the estimated average reversal rate of future tax assets determined as at December 31, 2003. At an effective tax rate of 29.3% for the fourth quarter of 2003, net income would have been $1.4 million compared with $1.7 million in 2004, an increase of $0.3 million or 24.7%. Diluted earnings per share decreased from $0.26, after adjusting for the income tax expense recovery, to $0.25. Same store revenue (revenue from stores open for the comparable periods) continued to show positive trending. Same store revenue growth increased from 7.7% in the fourth quarter of 2003 to 9.9% in the comparable period in 2004.

For the three months ended December 31, 2004, cash used in operating activities was $0.2 million compared with cash flow from operating activities of $1.8 million for the comparable three month period, a decrease of $2.0 million. The primary reasons for the decrease were increased purchases of rental assets and a greater pay-down of trade accounts payable, partially off-set by increased net income and items not affecting cash.

During the three months ended December 31, 2004 and 2003, the Company spent $0.4 million on capital asset additions in each period. The majority of the capital asset additions related to new store fixturing and leaseholds.

Results of Operations for the Three Months Ended December 31, 2004 Compared to the Three Months Ended December 31, 2003

Rental Revenue

Rental revenue was $20.2 million for the three months ended December 31, 2004 compared with $17.2 million in 2003, an increase of $3.0 million, or 16.9%. The primary reason for the increase was the increase in the customer base.

Other Revenue

Other revenue, which is realized from fees for ancillary services such as the merchandise protection plan, and processing, reinstatement and other fees related to returned cheques, was $3.8 million for the three months ended December 31, 2004 compared with $3.2 million in 2003, an increase of $0.6 million, or 17.7%, primarily due to increased penetration of the liability damage waiver fees. As a percentage of rental revenue, other revenue remained consistent at 18.6% in both periods.

Expenses

Operating expenses increased to $13.7 million for the three months ended December 31, 2004 compared with $11.7 million for the comparable period in 2003, an increase of $2.0 million, or 17.0%. This increase was in the normal course of business as a significant portion of the operating costs are variable with revenue. Certain expenses not variable with revenue did increase such as advertising, vehicle and property insurance, and rent due to the store count being 10 stores greater at December 31, 2004 compared with December 31, 2003. However, as a percentage of total revenue, operating expenses decreased marginally to 57.3% of revenue in 2004 from 57.4% in 2003.

Salaries and Benefits

Salaries and benefits were $6.9 million for the three months ended December 31, 2004 compared with $5.9 million in 2003, an increase of $1.0 million, or 16.4%. A greater head count because of more stores, the annual merit increases and higher incentive compensation accounted for the increase. As a percentage of revenue, salaries and benefits decreased from 29.2% in 2003 to 29.0% in 2004.

Selling, General and Administrative

Selling, general and administrative expenses were $2.9 million in 2004 compared with $2.3 million in 2003, an increase of $0.6 million, or 27.3%. As a percentage of revenue, selling, general and administrative expenses increased to 12.0% of revenue in 2004 from 11.0% in 2003. The primary reason for the increase in selling, general and administrative non-variable costs was an increase in advertising costs of $0.5 million because of the English language television advertising campaign that began in April 2004 as a means of increasing awareness of the merchandise rental option.

Occupancy Costs

Occupancy costs were $2.9 million for the three months ended December 31, 2004 compared with $2.7 million in 2003, an increase of $0.2 million, or 7.4%. As a percentage of revenue, occupancy costs decreased to 12.3% in 2004 from 13.4 % in 2003 primarily due to the leveraging of same store rent expense. Total rent did increase $0.2 million primarily due to the store count being 10 stores higher in 2004 versus 2003.

Automotive and Travel

Automotive and travel expenses were $1.0 million in 2004 compared with $0.8 million in 2003, an increase of $0.2 million, or 25.9%. This increase is attributable to higher lease costs because of the greater number of delivery vehicles in the fleet and higher operating costs because of the increase in the volume of business and rising fuel costs. As a percentage of revenue, automotive and travel costs increased from 3.7% in 2003 to 4.0% in 2004.

Amortization

Amortization of rental assets for the three months ended December 31, 2004 increased $1.0 million to $7.0 million from $6.0 million for the comparable period in 2003 primarily due to the increase in revenue, and was consistent at 29.3% of revenue for both periods.

Amortization of capital assets and intangible assets for the fourth quarter of 2004 was consistent with the fourth quarter of 2003 at 2.0% of revenue.

Operating Income (Income before interest and taxes)

Operating income was $2.7 million in 2004 compared with $2.3 million in 2003, an increase of $0.4 million, or 17.9%. As a percentage of revenue, operating income increased to 11.5% in 2004 from 11.4% in 2003.

Interest Expense

Interest expense for the fourth quarter of 2004 was $0.3 million lower than 2003 primarily due to the lower average bank balance outstanding during the period and the amortization of the bank credit facility fees, a reduction from $55,000 per month in 2003 to $7,500 per month in 2004.

Income Tax Expense

The income tax provision for the three months ended December 31, 2004 was calculated at an effective rate of 36% which reflects the expected average reversal rate for future income taxes.

Liquidity and Capital Resources

Three months ended December 31, 2004 compared to the three months ended December 31, 2003

Cash used in operating activities was $0.2 million for the fourth quarter of 2004 compared to cash flow from operating activities in 2003 of $1.8 million, a decrease of $2.0 million. Net income for the period increased $0.1 million and items not affecting cash increased $1.7 million for a total increase in operating cash flow from these items of $1.8 million. Rental asset purchases increased $2.7 million and the change in non-cash operating items decreased $1.1 million for a total decrease in operating cash flow from these items of $3.8 million. Purchases of rental assets increased to support the growth in revenue and the reduction in the net change of non-cash operating items was primarily a result of the reduction in trade payables and accrued liabilities.

Cash used in investing activities was $0.4 million in both the 2004 and 2003 fourth quarters.

Cash flow from financing activities was $0.6 million in 2004 and cash used in financing activities in 2003 was $1.4 million, an increase of $2.0 million. In 2003, net proceeds from an equity financing of $12.5 million were used to redeem $2.5 million of preferred shares compared with nil in 2004. The balance was used to reduce the bank revolving credit facility.

Contractual Obligations

The Company is committed to long-term operating leases for building space, vehicles and signage. The minimum annual lease payments plus estimated operating costs required for the next five years and thereafter are approximately as follows:

(in 000's)	$
2005	**9,879**
2006	**7,979**
2007	**5,184**
2008	**2,600**
2009	**950**
Thereafter	**333**
	26,925

Transactions with Related Parties

Amounts receivable includes a $265,400 (2003 - $298,900) home purchase loan provided to an officer of the Company as a result of his relocation during 2001. The loan is interest-free and is secured by a collateral mortgage on the officer's residence. The loan is repayable in installments of $1,000 per month plus 50% of any net bonuses awarded to the officer. The approximate fair value of the receivable at December 31, 2004 is $232,900.

Other

Additional information relating to the Company, including the Company's Annual Information Form, is on SEDAR at www.sedar.com.

As at March 7, 2005, there are 6,136,629 common shares, 806,300 options and 61,000 warrants outstanding.

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

easyhome Ltd. maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, financial records are accurate and reliable, and the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out its responsibility for the financial statements through its Audit Committee. This Committee meets periodically with management and the external auditors to review the financial statements and the annual report and to discuss audit, financial and internal control matters. The Company's external auditors have full and free access to the Audit Committee.

The financial statements have been subject to an audit by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

David Ingram,
President & Chief Executive Officer

S.W. Johnson,
Executive Vice President & Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
***easyhome* Ltd.**

We have audited the consolidated balance sheets of ***easyhome* Ltd.** as at December 31, 2004 and 2003, and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
February 18, 2005
(except for note 13(a) which is as of March 4, 2005)

Ernst & Young LLP
Chartered Accountants

(in 000's)	As at December 31 **2004** **$**	2003 $ (restated – see note 2)
ASSETS *[note 6]*		
Amounts receivable *[notes 14 and 15]*	**1,454**	1,677
Prepaid expenses	**796**	664
Rental assets *[note 3]*	**41,485**	32,440
Capital assets *[note 4]*	**5,435**	5,213
Future tax assets *[note 10]*	**9,058**	10,425
Intangible assets *[note 5]*	**267**	354
Deferred costs *[note 5]*	**12**	113
Goodwill	**10,779**	10,779
	69,286	61,665
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Bank revolving term loan *[note 6]*	**2,237**	3,684
Trade accounts payable	**6,776**	7,159
Accrued liabilities	**1,053**	1,416
Accrued payables, bonuses and other employee costs	**3,105**	2,153
Dividends payable *[note 9]*	**245**	—
Deferred lease inducements	**279**	52
Unearned revenue	**363**	315
Income taxes payable	**244**	278
Note payable *[note 7]*	**—**	160
	14,302	15,217
Commitments and contingencies *[notes 8 and 13]*		
Shareholders' equity		
Common shares *[note 9]*	**44,632**	44,350
Contributed surplus *[note 9]*	**240**	8
Retained earnings	**10,112**	2,090
	54,984	46,448
	69,286	61,665

See accompanying notes

On behalf of the Board: David Ingram, *Director* Donald K. Johnson, *Director*

	For the year ended December 31,	
(in 000's except earnings per share)	**2004** **$**	2003 $ (restated – see note 2)
REVENUE		
Rental	**74,479**	66,129
Other	**13,971**	11,961
	88,450	78,090
EXPENSES		
Salaries and benefits *[note 14]*	**25,888**	22,913
Selling, general and administrative	**9,681**	8,726
Occupancy costs	**11,550**	10,886
Automotive and travel	**3,571**	2,948
	50,690	45,473
AMORTIZATION		
Amortization of rental assets	**25,789**	23,341
Amortization of capital assets, intangible assets, and deferred costs *[notes 4 and 5]*	**1,583**	1,873
	27,372	25,214
Total operating expenses and amortization	**78,062**	70,687
Operating income	**10,388**	7,403
Interest expense *[note 12]*	**269**	1,708
Income before income taxes	**10,119**	5,695
Income taxes *[note 10]*		
Current	**—**	77
Future	**1,367**	1,591
	1,367	1,668
Net income for the year	**8,752**	4,027
Retained earnings (deficit), beginning of the year	**2,090**	(1,629)
Preferred share dividends *[note 9]*	**—**	(308)
Common share dividends *[note 9]*	**(730)**	—
Retained earnings, end of the year	**10,112**	2,090
Earnings per share *[note 11]*		
Basic	**1.44**	0.83
Diluted	**1.30**	0.75

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in 000's)	For the year ended December 31, 2004 $	2003 $ (restated – see note 2)
OPERATING ACTIVITIES		
Net income for the year	**8,752**	4,027
Items not affecting cash:		
Recognition of stock based compensation *[note 9]*	**232**	8
Amortization of rental assets	**25,789**	23,341
Amortization of capital assets, intangible assets, and deferred costs *[notes 4 and 5]*	**1,673**	2,473
Future income taxes *[note 10]*	**1,367**	1,591
Gain on sale of land held for resale	**—**	(143)
Net change in non-cash operating items -		
Rental assets	**(34,834)**	(27,936)
Other *[note 12]*	**538**	2,629
Cash flow from operating activities	**3,517**	5,990
INVESTING ACTIVITIES		
Purchase of capital assets	**(1,746)**	(3,248)
Proceeds on disposition of capital assets	**39**	160
Proceeds on sale of land held for resale	**—**	826
Repayment of note payable related to acquisition	**(160)**	(176)
Cash flow from investing activities	**(1,867)**	(2,438)
FINANCING ACTIVITIES		
Repayment of bank revolving term loan	**(1,447)**	(13,209)
Financing costs for bank revolving term loan	**—**	(90)
Proceeds from equity financing *[note 9]*	**—**	13,881
Issuance of common shares on exercise of options and warrants	**282**	67
Share issue costs *[note 9]*	**—**	(1,393)
Redemption of preferred shares	**—**	(2,500)
Preferred share dividend payments *[note 9]*	**—**	(308)
Common share dividend payments *[note 9]*	**(485)**	—
Cash flow from financing activities	**(1,650)**	(3,552)
Net change in cash	**—**	—

See accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

easyhome Ltd. (the "Company") is in the business of renting, with or without an option to purchase, brand name home entertainment products, appliances and household furniture across Canada.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations, which have been made using careful judgment. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

- RTO Asset Management Inc.
- RTO Distribution Inc.
- RTO (Rentown) Inc.
- RTO (Rentown) 2000 Inc.

Business cycle

Rental agreements for new product are written for an initial period of one week or one month, with successive renewal terms ranging from 24 to 36 months, and rental agreements for previously enjoyed product are similarly written, with successive renewal terms ranging from 4 to 35 months. Fewer than 5% of the Company's rental agreements carry terms of less than 12 months. Accordingly, an unclassified balance sheet has been presented.

Rental and other revenue

Merchandise is rented to customers pursuant to agreements that provide for weekly or monthly rental payments collected in advance. The rental agreements terminate at the end of the weekly or monthly rental period without any further obligation or cost to the customer. The customer may renew the agreement for another week or month, although there is no obligation to do so. Revenue from rental agreements is recognized when payment is received and the rental period has passed.

1. SIGNIFICANT ACCOUNTING POLICIES

Rental and other revenue (continued)

Other revenue from various services and charges to rental customers include liability waiver, processing and reinstatement fees, which are recognized as collected, and supplier incentives (excluding vendor volume rebates), which are recognized as earned.

Rental and capital assets

Rental and capital assets are recorded at cost, including freight. Vendor volume rebates are recorded as a reduction of the cost of rental assets.

Assets on rent, excluding game stations, computers and related equipment and assets that were previously held for rent assets that had not been out on rent for at least 90 consecutive days, are amortized using the units of activity method. Under the units of activity method, assets on rent are amortized in the proportion of rents received to total expected rents provided over the rental agreement term. Game stations are amortized on a straight-line basis over 18 months. Computers and related equipment are amortized on a straight-line basis over 24 months. Held for rent assets are not amortized where such assets have not been out on rent for less than 90 consecutive days. Once held for rent assets have not been out on rent for at least 90 consecutive days, such assets are amortized on a straight line basis over 18 months regardless of future rental. Amortization includes amounts which have been charged off as stolen, lost or no longer suitable for rent.

In the event management determines that the future net cash flows to be derived from renting the assets is less than the carrying value of the assets, the assets are written down to estimated net realizable value. The estimated net realizable value of rental assets is subject to measurement uncertainty and the impact on the consolidated financial statements for future periods could be material.

Capital assets are amortized over their estimated useful lives using the following rates and methods:

	Rate	Method
Office equipment and furniture	20-30%	Declining balance
Signage	20%	Declining balance
Automotive	30%	Declining balance
Leasehold improvements		Straight-line over the related lease term

1. SIGNIFICANT ACCOUNTING POLICIES

Rental and capital assets (continued)

Amortization is recorded at one-half of the above rates in the year of acquisition on all capital assets except leasehold improvements, software and display units.

Lease inducements

Lease inducements are recognized as future obligations when received and are amortized on a straight-line basis over the term of the related leases as an increase or reduction of current rent expense.

Intangible assets

Intangible assets are tested annually for impairment and an impairment loss would be recognized if the carrying amount of the intangible asset exceeds its estimated fair value. The Company performed an impairment test as at December 31, 2004 and determined that the carrying values of intangible assets were not impaired.

Customer lists are amortized on a straight-line basis over 5 years.

Customer rental agreements are amortized on a straight-line basis over 4 months.

Deferred costs

Deferred costs are recorded at cost. Amortization is computed using the straight-line method over the following periods:

Financing costs are amortized on a straight-line basis over the period of the related loan.

Organization costs are amortized over 5 years.

Goodwill

The carrying value of goodwill is reviewed annually to ensure that the value reflected is not impaired. An impairment loss would be recognized if the carrying amount of the goodwill exceeds its estimated fair value. Due to the long-term nature of assumptions made, it is possible that estimates could prove to be materially incorrect, and accordingly the impact on the consolidated financial statements for future periods could be material. The Company performed an impairment test as at December 31, 2004 and determined that the carrying value of the goodwill was not impaired.

1. SIGNIFICANT ACCOUNTING POLICIES

Share issue costs

Costs related to the issuance of shares are charged against share capital.

Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options and warrants is applied to purchase shares at the average price during the period and that the difference between the shares issued upon exercise of the options and warrants and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Antidilutive options and warrants are not considered in computing diluted earnings per share.

Income taxes

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Stock-based compensation

In periods prior to January 1, 2002, the Company recognized no compensation expense when shares or stock options were issued. Effective January 1, 2002, the Company adopted new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to the fair value method of accounting for stock-based compensation. As permitted by this standard, the Company applied this change prospectively for new awards granted on or after January 1, 2002. The Company chose to recognize no compensation expense when stock options were granted to employees and directors under stock option plans with no cash or equity settlement features. However, direct awards of shares to employees, directors and non-employees, and stock option awards granted to non-employees, were accounted for in accordance with the fair value method of accounting for stock-based compensation.

To date the Company has not granted options with cash or equity settlement features, or granted stock option awards to non-employees. In 2004, the shareholders approved the implementation of a restricted share unit plan, which permits the direct awarding of units to senior management entitling the respective employees to receive shares of the Company.

1. SIGNIFICANT ACCOUNTING POLICIES

Stock-based compensation (continued)

Effective January 1, 2003, the Company adopted the fair value method of accounting for stock options granted to employees and directors. As permitted, the Company applied this change prospectively for new awards granted on or after January 1, 2003. The Company continues to provide pro forma disclosures with respect to options granted in 2002.

The Company's stock-based compensation plans, consisting of a stock option plan and a restricted share unit plan, are more fully described in note 9.

Impairment of long-lived assets

Long-lived assets of the Company include capital assets, deferred start-up costs and intangible assets. These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is then recognized when the carrying amount exceeds their fair value.

During 2003, the Company completed a corporate re-branding and recorded an impairment loss related to certain capital assets (see note 4). There were no other events or changes in circumstances, which indicated that the carrying amounts of long-lived assets may not be recoverable, thereby requiring any further impairment losses to be recognized.

Foreign currency translation

The Company purchases rental assets from suppliers in the United States. Transactions denominated in US dollars are translated as follows: monetary items at the rate of exchange at the balance sheet date, and non-monetary items at historical exchange rates. Any resulting gains or losses are included in income.

2. CHANGE IN ACCOUNTING POLICY

Vendor volume rebates

Effective January 1, 2004, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for cash consideration received from a vendor. Under the new recommendations, the Company accrues vendor volume rebates when earned as a reduction to rental assets. Earned amounts are amortized on a straight line basis over 20 months, representing the average life of the underlying rental assets, and recorded as a reduction of rental asset amortization expense. Prior to the adoption of the new recommendation, vendor volume rebates were accrued as earned and recorded as other revenue.

This change has been applied retroactively and the Company's 2003 consolidated financial statements have been restated accordingly. The effect of adopting the new recommendations is summarized as follows:

(in 000's, except earnings per share)	**2004** **$**	2003 $
Balance Sheets		
Rental assets	**(725)**	(535)
Future tax assets	**261**	193
Retained earnings	**(464)**	(342)
Statements of Income and Retained Earnings		
Other revenue	**(825)**	(628)
Amortization of rental assets	**(635)**	(495)
Total operating expenses and amortization	**(635)**	(495)
Operating income	**(190)**	(133)
Income before income taxes	**(190)**	(133)
Income tax expense	**(68)**	(42)
Net income for the year	**(122)**	(91)
Earnings per share:		
Basic	**(0.02)**	(0.02)
Diluted	**(0.01)**	(0.01)

3. RENTAL ASSETS

(in 000's)	2004 $	2003 $ (restated – see note 2)
Rental assets	70,953	57,725
Accumulated amortization	(29,468)	(25,285)
Net book value	41,485	32,440

4. CAPITAL ASSETS

(in 000's)	2004 Cost $	2004 Accumulated amortization $	2004 Net book value $
Office equipment and furniture	5,792	2,953	2,839
Signage	1,669	528	1,141
Automotive	74	45	29
Leasehold improvements	2,458	1,032	1,426
	9,993	4,558	5,435

(in 000's)	2003 Cost $	2003 Accumulated amortization $	2003 Net book value $
Office equipment and furniture	5,093	2,454	2,639
Signage	1,514	291	1,223
Automotive	146	108	38
Leasehold improvements	2,038	725	1,313
	8,791	3,578	5,213

Amortization of capital assets of $1,485,200 (2003 - $1,701,500), including nil (2003 – $605,000) for writedowns related to the re-branding of the stores to the *easyhome* name, was recorded during the year.

5. OTHER ASSETS

Intangible assets

(in 000's)	2004 Cost $	 Accumulated amortization $	 Net book value $
Customer lists	450	183	267
Customer rental agreement	60	60	—
	510	243	267

(in 000's)	2003 Cost $	 Accumulated amortization $	 Net book value $
Customer lists	450	96	354
Customer rental agreement	60	60	—
	510	156	354

Amortization of $86,600 (2003 - $143,700) was recorded on the intangible assets during the year.

Deferred costs

(in 000's)	2004 Cost $	 Accumulated amortization $	 Net book value $
Organization costs	398	386	12
Financing costs	90	90	—
	488	476	12

5. OTHER ASSETS

	2003		
(in 000's)	**Cost** **$**	**Accumulated amortization** **$**	**Net book value** **$**
Organization costs	398	375	23
Financing costs	740	650	90
	1,138	1,025	113

Amortization of $101,200 (2003 - $627,300) was recorded on deferred organization and financing costs during the year.

6. BANK LOAN

The bank loan facility was renewed on December 20, 2004 and terminates December 31, 2005. The facility bears interest at prime plus 1.0% and at December 31, 2004, the credit limit was $10,000,000.

Covenants and conditions for the facility include a minimum equity requirement, a fixed charge cover covenant, a funded debt to EBITDA covenant, capital expenditure and rental asset acquisition covenants in accordance with projections and annual approval of the Company's business plan. During 2003 and 2004, and at the end of each year, the Company was in compliance with all bank loan covenants.

(in 000's)	**2004** **$**	2003 $
Bank revolving term loan	**2,237**	3,684

The weighted average interest rate on the bank loan for the year ended December 31, 2004 was 5.0% (2003 – 7.2%).

All assets of the Company are pledged as collateral for the facility.

7. NOTE PAYABLE

A note payable was issued as part of the purchase price consideration for the acquisition of 2 stores in October 2002. The note bore interest at 10% per annum and was payable in equal blended monthly interest and principal installments of $16,765 for 24 months commencing November 2002.

8. COMMITMENTS

The Company is committed to long-term operating leases for building space, vehicles and signage. The minimum annual lease payments plus estimated operating costs required for the next five years and thereafter are approximately as follows:

(in 000's)	$
2005	**9,879**
2006	**7,979**
2007	**5,184**
2008	**2,600**
2009	**950**
Thereafter	**333**
	26,925

9. SHARE CAPITAL

Authorized
Unlimited preferred shares
Unlimited common shares of no par value

Preferred shares issued and outstanding

On December 2, 2002, the Company issued 2,500,000 preferred shares for total proceeds of $2,500,000. During 2003, the Company paid preferred share dividends of $307,600, and on December 10, 2003, redeemed the preferred shares for $2,500,000.

Dividends were cumulative, calculated at a rate of 12% per annum, and payable monthly on the first business day of each following month. The preferred shares were non-voting and non-convertible, retractable by the holders under certain conditions, and redeemable by the Company without bonus or penalty subject to certain banking covenants being met. The preferred shares were issued to insiders of the Company, one of whom is the Chairman of the Board.

9. SHARE CAPITAL

Common shares issued and outstanding

(in 000's)	2004 Shares #	2004 Amount $	2003 Shares #	2003 Amount $
Balance, beginning of the year	**6,036**	**44,350**	4,381	31,299
Issued for cash for exercised stock options and warrants	**89**	**282**	22	67
Issued for cash	—	—	1,633	12,984
Balance, end of the year	**6,125**	**44,632**	6,036	44,350

In 2003, the Company issued 1,633,000 common shares, at $8.50 per share, for net cash proceeds of $12,983,700 ($13,880,500 less share issue costs of $1,393,400 plus future income tax benefits related to share issue costs of $496,600).

Common share dividends

In 2004, the Company commenced paying dividends on common shares. Dividends in the amount of $485,000 were paid to common shareholders during 2004 (2003 - nil). The Company declared a dividend of $0.04 per share ($245,000) to shareholders on record on November 30, 2004, which was paid on January 4, 2005.

Stock options and warrants

(in 000's)	2004 #	2003 #
Outstanding options and warrants		
Balance, beginning of the year	**899**	921
Options granted	**76**	14
Options exercised	**(81)**	(22)
Warrants exercised	**(8)**	—
Options and warrants cancelled, terminated or expired	**(7)**	(14)
Balance, end of the year	**879**	899

9 SHARE CAPITAL

Stock options

Under the Company's stock option plan, options to purchase common shares may be granted by the Board of Directors to directors, officers and employees. Options are granted at exercise prices equal to or greater than fair market value at the grant date, generally vest evenly over a five year period, and have exercise lives ranging from five to ten years. The aggregate number of common shares reserved for issuance and which may be purchased upon the exercise of options granted pursuant to the plan shall not exceed 1,000,000 common shares.

The Company has granted stock options to directors, officers and employees to purchase 818,140 common shares at prices between $3.06 and $15.00 per share. These options expire on dates between February 1, 2006 and April 20, 2011.

	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
(# of shares in 000's)	#	$	#	$
Stock options, beginning of the year	**830**	**3.34**	852	3.30
Options granted	**76**	**12.05**	14	7.01
Options exercised	**(81)**	**3.18**	(22)	3.07
Options canceled, terminated or expired	**(7)**	**6.79**	(14)	5.25
Stock options, end of the year	**818**	**4.14**	830	3.34

9. SHARE CAPITAL

The Company has issued options to directors, officers and employees at December 31, 2004 as follows:

	Outstanding			Exercisable	
Range of Exercise Prices $	Shares #	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price $	Shares #	Weighted Average Exercise Price $
	(in 000's)			*(in 000's)*	
3.06 – 4.50	693	3.35	3.07	676	3.07
5.90 – 7.86	50	2.72	7.06	28	7.06
12.00 – 15.00	75	4.21	12.06	21	12.04
3.06 – 15.00	818	3.39	4.14	725	3.49

Stock-based compensation

The Company uses the fair value method of accounting for stock options granted to employees and directors on or after January 1, 2003. During the year ended December 31, 2004, the Company granted 76,200 options (2003 – 14,500). Compensation (salaries and benefits) expense of $106,000 (2003 - $8,000), with a corresponding increase in contributed surplus, was recorded in respect of stock options during the year.

The estimated fair value of these options was determined using the Black-Scholes options pricing model with the following assumptions, resulting in a weighted-average fair value of $6.13 per option (2003 – $4.09):

	2004	2003
Risk-free interest rate (%)	3.36	3.99
Expected hold period to exercise (years)	4.0	4.0
Volatility in the price of the corporation's shares (%)	66.96	75.38
Dividend yield (%)	0.07	0.00

9. SHARE CAPITAL

The following table provides the required pro-forma measures of net income and earnings per share had compensation expense been recognized based on the fair value of the options granted in 2002, as at the date of the grant, in accordance with the fair value method of accounting for stock-based compensation:

(in 000's except earnings per share figures)	**2004** **$**	2003 $
Net income for the year	**8,752**	4,027
Compensation expense	**20**	26
Pro-forma net income for the year	**8,732**	4,001
Earnings per share:		
Reported basic earnings per share	**1.44**	0.83
Compensation expense per share	**(0.00)**	(0.01)
Pro-forma basic earnings per share	**1.44**	0.82
Reported diluted earnings per share	**1.30**	0.75
Compensation expense per share	**(0.00)**	(0.01)
Pro-forma diluted earnings per share	**1.30**	0.74

The estimated fair value of these options was determined using the following weighted-average assumptions, resulting in a weighted-average fair value of $4.58 per option (2003 – $4.54):

	2004	2003
Risk-free interest rate (%)	**4.56**	4.47
Expected hold period to exercise (years)	**4.0**	4.0
Volatility in the price of the corporation's shares (%)	**85.18**	85.49
Dividend yield (%)	**0.00**	0.00

9. SHARE CAPITAL

Warrants

In December 2000, the Company issued warrants to acquire 100,000 common shares at an exercise price of $3.06 per share as part of the terms of a subordinated debenture financing. The warrants may be exercised at any time over a five year period from issuance. At December 31, 2004, 61,000 warrants (2003 – 69,000) were outstanding.

Restricted Share Unit Plan

On May 10, 2004, the shareholders approved the implementation of a restricted share unit plan (the "Plan") which permits the awarding of restricted share units to senior management of *easyhome* Ltd., its subsidiaries and its designated affiliates (collectively the "Company"). Each unit entitles the employee to receive one common share of the Company. The units vest on the third anniversary of the date of the grant provided certain performance criteria are met. 150,000 common shares are reserved for issuance under the Plan. The purpose of the Plan is to (i) provide long-term incentives to senior executives of the Company so as to encourage the long-term retention of senior executives for the success of the Company; (ii) support the objectives of employee share ownership; (iii) foster a responsible balance between short-term and long-term results; and (iv) build and maintain a strong spirit of performance and entrepreneurship.

On May 11, 2004, 71,000 units were granted to senior executives of the Company and, during the year, an additional 606 units were granted as a result of the declaration of common share dividends. Compensation expense is recognized over the three-year vesting period. During the year ended December 31, 2004, $126,000 was recorded as compensation (salaries and benefits) expense, with a corresponding increase in contributed surplus, under the Plan.

10. INCOME TAXES

The Company's tax provision is determined as follows:

($ in 000's)	2004 $	2003 $ (restated – see note 2)
Combined basic federal and provincial income tax rates	**35.98%**	37.2%
Expected income tax expense	**3,641**	2,126
Impact of changes in substantively enacted tax rates on recognized future tax assets	**31**	(599)
Valuation allowance adjustments	**(2,276)**	—
Other	**(29)**	141
	1,367	1,668

A change in the Province of Ontario's substantively enacted tax rates, as announced in November 2003, is the primary reason for the $599,000 reduction in the 2003 tax provision.

Significant components of the Company's future tax assets are as follows:

(in 000's)	2004 $	2003 $ (restated – see note 2)
Future tax assets		
Loss carryforwards	**838**	2,215
Tax cost of rental and capital assets in excess of net book value	**7,332**	9,396
Accounts receivable	**580**	570
Other	**308**	520
	9,058	12,701
Less valuation allowance	**—**	(2,276)
	9,058	10,425

10. INCOME TAXES

At December 31, 2003, a valuation allowance of $2,276,000 against future tax assets was required due to the Company's operating history and management's assessment of various uncertainties as to their future realization. During 2004, management revised its assessment of the magnitude and timing of positive taxable income that is sustainable in future periods and accordingly, reversed this valuation allowance.

At December 31, 2004, the Company and its subsidiaries had unused non-capital tax loss carry-forwards of approximately $2,355,000 available to reduce future years' taxable income which expire as follows:

(in 000's)	$
2006	**59,000**
2007	**1,266,000**
2009	**759,000**
2011	**271,000**
	2,355,000

At December 31, 2004, the potential future tax benefit associated with all of these losses has been recorded in these consolidated financial statements.

11. EARNINGS PER SHARE

The reconciliation of net income to net income available to common shareholders is as follows:

(in 000's)	**2004** **$**	2003 $ (restated – see note 2)
Net income for the year	**8,752**	4,027
Dividends paid on preferred shares	**—**	(308)
Net income available to common shareholders	**8,752**	3,719

The number of basic and diluted common shares outstanding, as calculated on a weighted-average basis, is as follows:

(in 000's)	**2004** **#**	2003 #
Basic shares outstanding	**6,066**	4,478
Share options (dilutive effect of 816,540 options; 2003 – 802,320)	**602**	463
Warrants (dilutive effect of 61,000 warrants; 2003 – 69,000)	**47**	40
Diluted shares outstanding	**6,715**	4,981

Stock options to acquire 1,600 common shares (2003 – 28,000) were not included in the calculation of diluted shares as their exercise prices exceeded the average market share price for the year.

12. NET CHANGE IN NON-CASH OPERATING ITEMS

The net change in non-cash operating items excluding rental assets is determined as follows:

(in 000's)	2004 $	2003 $
Amounts receivable	223	(109)
Prepaid expenses	(132)	181
Trade accounts payable	(383)	1,805
Accrued liabilities	(370)	250
Accrued payables, bonuses and other employee costs	952	562
Deferred lease inducement	227	52
Unearned revenue	48	(115)
Income taxes payable	(27)	3
	538	2,629

Supplemental disclosures in respect of the consolidated statement of cash flows comprise the following:

(in 000's)	2004 $	2003 $
Income taxes paid	87	74
Interest paid	179	1,107

Interest expense of $268,900 (2003 - $1,707,800) presented on the statement of income includes amortization of financing costs of $90,000 (2003 - $600,000).

13. CONTINGENCIES

(a) On April 26, 2004 a legal proceeding was commenced against the Company and its wholly-owned subsidiary, RTO Asset Management Inc. by Lawrence William Nantais (the "Plaintiff"), a customer of the Company. The Plaintiff seeks an order pursuant to the Class Proceedings Act, 1992, S.O. 1992 c6 (the "Act"), as amended, certifying the action as a class proceeding and appointing him as the representative of the class. The Plaintiff asserts that, to the extent a member of the class acquires ownership of merchandise offered by easyhome, the Company's rental agreement is an agreement or arrangement for credit advanced and the aggregate of all charges and expenses under the rental agreement amounts to interest charged at rates in excess of those allowed by law and that the rental agreements are void and unenforceable. The Statement of Claim states that the members of the class will seek to recover such charges and expenses, as well as damages, costs and interest.

As at December 31, 2004, it was not possible to reasonably estimate the loss, if any, that would result from this claim.

On March 4, 2005 the Company settled the class action lawsuit in principle. The settlement is conditional upon the lawsuit being certified by the Court as a class proceeding under the Class Proceedings Act and as part of that process, the terms of settlement being approved by the Court. The settlement does not constitute any admission of liability by the Company.

Under the terms of the settlement in principle, the Company is to pay to the Class $7.384 million in coupons which may be used to purchase the Company's merchandise, be applied to existing rental agreements or used after starting a new rental agreement. In addition, the Company is to pay the legal fees and costs of the Class, in an amount to be approved by the Court, but anticipated to be less than $1.0 million. At this time, the Company has not estimated the cost of the settlement as that is contingent upon how many coupons are redeemed and in what form, that is, whether they are used to acquire merchandise, applied against rent on existing rental agreements or applied against rent on newly activated rental agreements. However, the Company does expect the final cost of the settlement to be less than the full settlement amount, as rates of take-up and redemption of the coupons will likely be less than 100%.

(b) A motion seeking the authorization to institute a class action was started against the Company in the Province of Quebec (Montreal Superior Court) in November 1997. The plaintiffs were authorized by the Court in July 1999 to proceed with a class action against the Company on behalf of all persons who contracted with the Company in the Province of Quebec for the lease or purchase of one or more items destined for personal use in their home (the "class"). The plaintiffs allege that the Company's rental contracts do not properly comply with the requirements of the Consumer Protection Act (Quebec). They are seeking the cancellation of their contracts, or the reduction of their obligations and the reimbursement of all or a portion of the amounts paid by the members of the class to the Company, as well as exemplary damages in the amount of $200 per contract. The Company has entered into a settlement agreement with the plaintiffs, which is expected to be authorized by the court in April 2005. Management recorded a reserve on its books in a prior year in an amount it considers to be adequate to cover any potential liability of the Company in relation to this matter.

14. RELATED PARTY TRANSACTIONS

Amounts receivable includes a $265,400 (2003 - $298,900) home purchase loan provided to an officer of the Company as a result of his relocation during 2001. The loan is interest-free and is secured by a collateral mortgage on the officer's residence. The loan is repayable in installments of $1,000 per month plus 50% of any net bonuses awarded to the officer. The approximate fair value of the receivable at December 31, 2004 is $232,900.

During 2003 the Company paid $170,000 to a former director for consulting services. No such payments were made in 2004.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

The fair value of amounts receivable, trade accounts payable and income taxes payable approximate their carrying values, due to expected relatively short periods to maturity of these instruments.

The fair value of the bank revolving term loan approximates its carrying value due to interest rates which reflect market rates.

Interest rate risk management

The bank revolving term loan bears a floating rate of interest. The Company does not hedge interest rates and future changes in interest rates will affect the amount of interest expense payable by the Company.

Credit risk management

The maximum exposures to credit risk are represented by the carrying amount of the amounts receivable and assets on rent with customers under merchandise rental agreements.

The credit risk related to amounts receivable results from the possibility of default on rebate payments. The Company deals with credible companies, performs ongoing credit evaluations and allows for uncollectible rebate amounts when determined.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The credit risk related to assets on rent results from the possibility of customer default of agreed payments. The Company rents products to thousands of customers and has no concentration of revenue risk with any particular individual, company or other entity. The Company has a standard collection process in place in the event of payment default, which concludes with the recovery of the rental asset if satisfactory payment terms cannot be worked out, as the Company maintains ownership of the rental assets until payment options are exercised. Annual rental asset losses normally approximate 3% of rental revenues.

Indemnities

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

16. SEGMENTED INFORMATION

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the President & Chief Executive Officer.

The Company operates in one reportable and geographic segment, which is the business of renting, with or without an option to purchase, direct to the consumer, brand name entertainment products, appliances and household furniture in Canada. As at December 31, 2004, the Company operated 143 (2003 – 133) stores in 10 provinces.

Information about products

Providing information relating to revenue from customers for each product, or group of similar products, is impractical and accordingly, only rental revenue has been presented in the consolidated statements of income and retained earnings.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

CORPORATE GOVERNANCE

easyhome Ltd. recognizes the importance of its fiduciary responsibility to shareholders, and believes that high corporate governance standards are fundamental to the Company's success. Accordingly, the Board of Directors has developed systems and procedures that are appropriate and effective for the Company and its business. *easyhome*'s corporate governance policies and practices meet or exceed the Toronto Stock Exchange Guidelines and are reviewed on a continuous basis.

The Company's Directors are experienced business leaders representing a breadth of background and experience, including finance and merchandise rental. On behalf of *easyhome*'s shareholders, the Board of Directors is responsible for the stewardship of the Corporation, establishing overall policies, reviewing strategic plans, and holding accountable the management to whom it delegates the operation of the Company.

The Board has established three permanent Committees with written mandates for the continuous review and monitoring of key areas critical to good corporate governance. The Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee each consist of three Directors, all of whom are independent of management.

COMMITTEE STRUCTURE

Audit Committee

The mandate of the Audit Committee is to assist the Board of Directors in its oversight role with respect to the quality and integrity of financial information, the effectiveness of the Corporation's risk management and compliance practices, the independent auditor's performance, qualifications and independence, and the Corporation's compliance with legal and regulatory requirements. The Committee reviews the annual and interim financial statements of the Corporation, as well as other public disclosure documents required by regulatory authorities. The Audit Committee also makes recommendations to the Board regarding the appointment of independent auditors, reviews the nature and scope of the annual audit, and reviews the adequacy of the internal accounting controls, management store audits, operating procedures and systems.

Compensation Committee

The Compensation Committee's mandate is to review the Corporation's compensation strategy with a view to aligning compensation with business objectives and performance, and aligning incentives with the interests of shareholders to maximize shareholder value. This includes developing compensation recommendations for the approval of the full Board for the Corporation's Executive Officers, Directors of the Corporation and all other employees. Compensation includes salary, bonuses, benefits, stock option grants, stock purchases and other compensation as appropriate. It also includes reviewing the written objectives of the Chief Executive Officer and his direct reports, annually assessing the performance of the Chief Executive Officer, and reviewing and assessing a plan for succession. The Committee also ensures there are appropriate training, development and benefit programs in place for management and staff.

Corporate Governance and Nominating Committee

The mandate of the Corporate Governance and Nominating Committee is to assist the Board of Directors in establishing and maintaining a sound system of corporate governance through a process of continuing assessment and enhancement. The Committee is responsible for examining the effectiveness of the Corporation's corporate governance practices and proposing such procedures and policies as the Committee believes are appropriate to ensure that the Board clearly functions independently of management, management is clearly accountable to the Board of Directors of the Corporation, and procedures are in place to monitor the effectiveness of performance of the Board and individual Directors. In addition, the Committee shall be responsible for identifying and recommending to the Board suitable candidates for nomination as new Directors, and reviewing the credentials of Directors standing for re-election.

A detailed description of the Company's approach is outlined in the Management Information Circular issued in connection with the Annual Meeting of Shareholders, a copy of which is available through Equity Transfer Services Inc.

YOUR EXECUTIVE TEAM!

Rick Atkinson
Vice President, Development

S. William Johnson
Executive Vice President & Chief Financial Officer

David Ingram
President & Chief Executive Officer

Randy Robertson
Senior Vice President, Operations

Dave Maries
Vice President, Marketing & Merchandising

easyhome® Ltd.

BOARD OF DIRECTORS

Donald K. Johnson
Chairman
easyhome Ltd.

David Ingram
President & Chief Executive Officer
easyhome Ltd.

Douglas Anderson
Corporate Director

Ronald G. Gage
Corporate Director

Robert (Robin) Korthals
Corporate Director

David A. Lewis
Corporate Director

Joseph Rotunda
President & Chief Executive Officer
EZCorp., Inc.

OFFICERS

David Ingram
President & Chief Executive Officer

S. William Johnson
Executive Vice President & Chief Financial Officer

Rick Atkinson
Vice President, Development

Dave Maries
Vice President, Marketing & Merchandising

Randy Robertson
Senior Vice President, Operations

www.easyhome.ca

easyhome® Ltd.